

April 06, 2023

Kishtwar Transmission Limited: Long-term rating of [ICRA]BBB- (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	305.00	[ICRA]BBB- (Stable); assigned
Total	305.00	

*Instrument details are provided in Annexure-I

Rationale

The assigned rating for Kishtwar Transmission Limited (KTL) takes into consideration the track record of its parent, the Sterlite Group, in the implementation and operation of power transmission projects. In India, the Group has completed 12 power transmission projects till date, with another five transmission projects, including KTL, under implementation. The commissioned power transmission projects have been operating at healthy line availability of more than 99%. KTL derives synergy from its ultimate parent, Sterlite Power Transmission Limited (SPTL), which is involved in the engineering, procurement and construction (EPC) of power transmission projects and supply of power transmission conductors.

The company has awarded a fixed-price EPC contract to SPTL, thereby eliminating raw material price movement risk. The rating also favourably takes note of the completion of financial closure with the company securing a Rs. 305-crore term loan for the project, with a moratorium period of nine months and a door-to-door tenure of 23 years. Further, the company has received 30% of the budgeted equity so far, with SPTL expected to have adequate resources to fund the balance equity.

ICRA positively notes that the project benefits from an assured offtake and stable cash inflows in the form of fixed monthly charges under the terms of the 35-year transmission service agreement (TSA), provided the line availability is maintained above the normative level of 98%. Further, the project being a part of the interstate transmission system (ISTS), is expected to benefit from favourable payment security under the pooling mechanism managed by the Central Transmission Utility of India Limited (CTU; subsidiary of Power Grid Corporation of India Limited) during the operating period.

The rating is, however, constrained by implementation risks because of the nascent stage of the project with construction work yet to commence. The company is currently involved in getting the required approvals. The rating also factors in the risks related to delays in receiving approvals and right of way. However, the non-applicability of forest approval, environment clearance and Railway/ River/ Road/ Power Line crossings for this project limit the approval risks. Also, the transmission line length of the project is only 0.86 kms, thereby limiting the right of way risks. The company has acquired 70% of the required land for the substation. The timely acquisition of the balance land and receipt of approvals related to transmission licence, Section 164 clearance and a go-ahead from the PTCC¹ without any delays would be important.

Further, since KTL's transmission project is linked with the 1000 MW Pakaldul hydro power project of Chenab Valley Power Projects Pvt Ltd (a JV of NHPC and Government of J&K), delays in commissioning of the generation project could lead to delays in commissioning of the KTL's transmission project. If such a scenario were to happen, securing additional time from the regulator, lender, and long-term transmission customers (LTTCs) would remain important.

Post commissioning, the company's profitability would be exposed to line availability and fluctuations in operations and maintenance (O&M) expenses. Nonetheless, the experience of SPTL in the power transmission business should ensure adequate resource allocation for maintaining availability above the normative level of 98.0% and cost-efficient execution of

¹ Power & Telecommunications Coordination Committee

O&M activity. The rating also takes into account the exposure of the company's debt coverage metrics to interest rate movement post CoD, given the high leverage level with the project funded through debt and equity of 75:25 and floating interest rates.

The Stable outlook reflects ICRA's expectation that the project would progress as per the company's expected timelines on the back of the established track record of the Sterlite Group in executing power transmission projects.

Key rating drivers and their description

Credit strengths

Established track record of Sterlite Group in implementation and operation of power transmission projects – The Group is one of the major private players in India's power transmission sector and the project will benefit from the established track record of the Group.

Synergy with SPTL; fixed-price EPC contract signed – The company enjoys synergy with SPTL, which is involved in the EPC of power transmission projects and supply of power transmission conductors. The experience of SPTL will help in the timely execution of the project. The presence of a fixed-price EPC contract with SPTL helps the company to offset the exposure to adverse raw material price movements.

Financial closure for debt funding – The company has achieved financial closure for debt funding of Rs. 305 crore, which has a door-to-door tenure of 23 years, including a moratorium of nine months post scheduled CoD. Further, the promoters have infused Rs 30.58 crore as on February 28, 2023, out of their total contribution of Rs. 101.67 crore in the project cost, and are expected to have adequate resources to fund the balance equity in a timely manner. Further, SPTL has a track record of supporting its SPVs to fund the cost overruns, if any.

Assured off-take under long-term TSA; strong payment security – Post commissioning, the company will enjoy assured offtake and stable cash inflows in the form of fixed monthly charges, provided the line availability is maintained above 98% under the TSA with the long-term transmission customers. The project will also benefit from the diversified counterparty risk and favourable payment security under the pooling mechanism once commissioned. Under this mechanism, the Central Transmission Utility of India Limited (CTU) collects monthly transmission charges from ISTS customers, which are distributed to all the ISTS licensees from the centrally collected pool.

Credit challenges

Implementation risks associated with typical power transmission projects – The project is currently in the initial stages of implementation, wherein construction work is yet to commence, which exposes it to significant execution risks. Also, the project is exposed to risks related to delays in receiving approvals and right of way. However, the non-applicability of forest approval, environment clearance and railway/river/road/power line crossings for this project limit the approval risks. Also, the transmission line length of the project is only 0.86 km, limiting the right of way risks. The company has acquired 70% of the required land for the substation. The timely acquisition of the balance land and the receipt of approvals related to transmission licence, Section 164 clearance and PTCC approval without any delays remain important. The COD of KTL's project is linked with the 1000 MW Pakaldul hydro power project of Chenab Valley Power Projects Pvt Ltd.

Moderate operations and maintenance risk – Post commissioning, the company's profitability would remain exposed to variations in O&M expenses and line availability. However, the experience of SPTL in the power transmission business should ensure adequate resource allocation and cost-efficient execution of the O&M activity.

Interest rate risk – The project is being funded by debt-to-equity funding mix of 3:1, with debt having floating interest rates. Thus, the company’s debt coverage would be exposed to interest rate movement post commissioning, given the largely fixed transmission revenue post commissioning.

Liquidity position: Adequate

The liquidity position of the company is expected to remain adequate, given the availability of requisite debt funding for the project and infusion of 30% of the budgeted equity. The balance equity is expected to be funded by the sponsor in a timely manner. Also, there is adequate buffer between the scheduled commissioning date and debt repayment commencement date.

Rating sensitivities

Positive factors – ICRA could upgrade KTL’s rating if the company progresses towards commissioning the project without any major time and cost overruns.

Negative factors – Pressure on the rating could emerge in case of any significant delays in project implementation, or sizeable cost overrun. Any delays in infusion of promoter contribution would also be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Power Transmission
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

Kishtwar Transmission Limited (KTL) is a special purpose vehicle (SPV) incorporated to establish a ‘Transmission system for evacuation of power from Pakaldul HEP in Chenab Valley (Jammu) HEPs - Connectivity system’. The project involves setting up a new substation at Kishtwar, Jammu, along with connecting bays and double circuit transmission line of 0.86 km. The project was awarded through tariff-based competitive bidding by PFC Consulting Limited (PCL; bid process coordinator for power transmission projects appointed by Government of India), wherein Sterlite Grid 24 Limited (subsidiary of SPTL) emerged as a winning bidder with a quoted levelled tariff of Rs. 38.846 crore/annum. Following the bidding process, KTL was acquired by Sterlite Grid 24 Limited from PCL in December 2022. While the letter of intent was issued by PCL in March 2022, the SPV acquisition was delayed owing to delay in the signing of the TSA by one of the LTTCs. The project is being implemented on a built, own, operate and maintain (BOOM) basis, with a TSA tenure of 35 years post commissioning. The budgeted cost of the project is Rs. 406.7 crore, funded through debt and equity of 75:25.

Key financial indicators

	FY2021	FY2022
Operating income	NM	NM
PAT	NM	NM
OPBDIT/OI	NM	NM
PAT/OI	NM	NM
Total outside liabilities/Tangible net worth (times)	NM	NM
Total debt/OPBDIT (times)	NM	NM
Interest coverage (times)	NM	NM

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; NM – Not Meaningful as company is in project stage

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Feb 28, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Apr 06, 2023	-	-	-
1 Term loans	Long term	305.00	90.00	[ICRA]BBB-(Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance/Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loans	December 2022	-	March 2045	305.00	[ICRA]BBB- (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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